

THE HEARTLAND GROUP  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS  
SCHEDULE OF FINDINGS

JUNE 30, 2015

THE HEARTLAND GROUP

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THE HEARTLAND GROUP

OFFICIALS  
JUNE 30, 2015

<u>Name</u>	<u>Title</u>
Steve Siegel	Chairperson
Lee Dimmitt	Treasurer

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Heartland Group

### Report on the Financial Statements

We have audited the accompanying statement of cash receipts, disbursements and changes in net position of The Heartland Group as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise The Heartland Group's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash receipts and disbursements basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of The Heartland Group as of June 30, 2015, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

### Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash receipts and disbursements basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2016 on our consideration of the Heartland Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Heartland Group's internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
February 11, 2016

## FINANCIAL STATEMENT

THE HEARTLAND GROUP

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

OPERATING RECEIPTS:

Facility rent payments	\$ <u>34,000</u>
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OPERATING DISBURSEMENTS:

Insurance	18,639
Professional fees	2,000
Utilities	25,206
Repairs and maintenance	13,062
Miscellaneous	<u>800</u>
Total operating disbursements	<u>59,707</u>

Deficiency of operating receipts over operating disbursements	(25,707)
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## Non-operating receipts:

Interest income	<u>56</u>
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Change in unrestricted cash basis net position	<u>(25,651)</u>
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Unrestricted cash basis net position - Beginning of year	<u>115,748</u>
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Unrestricted cash basis net position - End of year	\$ <u>90,097</u>
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## THE HEARTLAND GROUP

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heartland Group is a public authority established March 11, 1993, under a 28E agreement by a multi-county government consisting of Jefferson and Wapello Counties. The Heartland Group operates under the Board of Directors' control and provides services to citizens in the two-county area. Services are provided to other counties depending on availability of units. Program services consist primarily of a 45-bed inpatient unit for persons with persistent and severe mental illness. The program is designed to assist residents to reach and maintain their maximum level of functioning and live their lives with dignity and respect.

In accordance with the 2008 Management Agreement between The Heartland Group and Hillcrest Family Services, Inc., (an Iowa non-profit corporation), the responsibility for the day to day operations of the facility shall be the administrative function of Hillcrest Family Services, Inc., as well as the continued licensing and adherence with all rules, standards and regulations promulgated by the Iowa Department of Inspections and Appeals and the Iowa Department of Human Services.

#### Reporting Entity

The financial statements include all funds of the Heartland Group. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes.

#### Fund Accounting

The accounts of The Heartland Group are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and net position. The Heartland Group uses the following fund in its activities:

Operating Fund – The enterprise fund is the general operating fund of The Heartland Group. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not required to be paid through other types of funds.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Heartland Group maintains its financial records on the basis of cash receipts and disbursements and the financial statement of The Heartland Group is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items.

Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with generally accepted accounting principles.



THE HEARTLAND GROUP  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accounts of The Heartland Group are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 2: CASH AND INVESTMENTS

The Heartland Group, had deposits in banks at June 30, 2015 that were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

NOTE 3: RISK MANAGEMENT

The Heartland Group is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Heartland Group's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Heartland Group's contributions to the Pool for the year ended June 30, 2015 were \$18,639.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Heartland Group's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Heartland Group's risk-sharing certificate.

THE HEARTLAND GROUP  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 3: RISK MANAGEMENT (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Heartland Group does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the Heartland Group's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

NOTE 4: MAJOR REVENUE SOURCE

The Heartland Group receives all of its operating receipts from Hillcrest Family Services, Inc.

NOTE 5: RENT INCOME

The Heartland Group has a lease agreement with Hillcrest Family Services, Inc. which expired June 30, 2015. The lease contains provisions for a one year renewal. The lease calls for a monthly payment to The Heartland Group of \$8,500.

NOTE 6: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 11, 2016, the date which the financial statements were available to be issued.

Subsequent to June 30, 2015, The Heartland Group ceased operations. Remaining expenses were paid through October of 2015 when the remaining assets of The Heartland Group was transferred to Wapello County, Iowa.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of  
The Heartland Group

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of The Heartland Group, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise The Heartland Group's basic financial statements and have issued our report thereon dated February 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Heartland Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Heartland Group's internal control. Accordingly, we do not express an opinion on the effectiveness of The Heartland Group's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Heartland Group's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

### The Heartland Group's Response to Findings

The Heartland Group's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Heartland Group's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of The Heartland Group during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
February 11, 2016

THE HEARTLAND GROUP

SCHEDULE OF FINDINGS

JUNE 30, 2015

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – Due to the small size of your organization, one official performs many bookkeeping duties which are incompatible. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation – We realize that with a limited number individuals in the Organization, segregation of duties is difficult. However, the Organization should be aware of the lack of segregation of duties and periodically review its internal policies.

Response – The internal policies will be reviewed on a regular basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

No matters were noted.